The ARA journey has taken a major step forward in 2017...

ARA | ANNUAL REPORT 2017

Reliable Solutions
For Your Facility
and Infrastructure


ARA

ARA ANNUAL REPORT 2017

AR17

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ARA 2017

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Letter From

The Chairman and Managing Director

" Without the high quality senior management team and our dedicated employees, ARA would not have met the goals that we, as founders of ARA, have set for the company. "

Leo Browne - Chair of the Board of Directors
Edward Federman - Managing Director

ARA has been on a focused journey for the past sixteen years. We have attempted to consistently grow the business, keep our financial leverage at a reasonable and safe amount and provide an above average return to our shareholders. Although we have had setbacks along the way, we have largely accomplished these three objectives. We are proud of our achievements and accomplishments and where the ARA Group is now positioned.

Without the high quality senior management team and our dedicated employees, ARA would not have met the goals that we, as founders of ARA, have set for the company.

We want to give a heartfelt thanks to our senior management team and the ARA employees for working so hard this year to fulfill the requirements of our customers. This exceptional effort resulted in a record year of sales and earnings for ARA for the second consecutive year. Sales grew to $372 million, an increase of $20 million, or 6%, from $352 million in 2016. This is the fifteenth year out of the sixteen years of ARA's operations, that sales increased from the prior year. The growth in EBITDA in 2017 was very significant. EBITDA in 2017, before acquisition expenses, was $22.9 million, an increase of $6.3 million, or 38%, from $16.6 million in 2016. Perhaps most impressive was that EBITDA, before profit sharing with management and employees and acquisition expenses, was $26.1 million, or 7% of sales.

Complementing the record breaking operating results was the cash flow of the business. Free cash flow for financial year 2017 was $11.5 million. 73% of EBITDA was converted into operating cash flow. The growth of the business this year required an investment in increased working capital.

The theme of the 2017 Annual Report is a step change in the evolution of the ARA Group. The strong operating result was enhanced by the completion of complementary acquisitions. A few small bolt-on acquisitions were finalised during the year. An acquisition of a financially troubled high voltage electrical business was successfully completed in November. Employment was maintained for 25 employees and high voltage installation work continued for important customers and many creditors received meaningful payments.

During the fourth quarter of this financial year, ARA simultaneously changed its banking arrangements and completed the largest acquisition in our history. Effective on the 1st of May 2017, ARA acquired 100% of the CMC Property Services Group (CMC). CMC is principally a commercial cleaning business but also does other integrated property maintenance services and emergency response repairs. This acquisition successfully added a soft service to complement our existing technical services. CMC's annual sales are approximately $56 million with strong profit margins.

Another aspect of the merger of our groups is that CMC has an Indigenous service business with a current focus on commercial cleaning. ARA acquired 49% of CMC Indigenous Services. Our partner in CMC Indigenous Services is Michael O'Loughlin, the former Sydney Swans star. We will now be in a position to fulfill an important social responsibility goal to have a meaningful engagement with the Indigenous community in Australia.

The CMC businesses will comprise the Property Services Division. This division will be led by Paul McCann, the founder of CMC.

Each of our divisions had strong operating results in 2017 and each is well positioned to begin the new financial year.

During the year just completed, we reorganised our divisions. The Manufacture and Distribution Divisions were combined to create our Products Division under the leadership of Stuart Harmer. This newly combined division had a very good result and the best operating margin in the ARA Group.

The Electrical Division, led by Brett Chambers, is ARA's largest division. Total revenue has averaged slightly less than $100 million for the past two years. A highlight of this financial year was the acquisition of the financially troubled high voltage business. In fourteen of the sixteen years of the ARA Group, ARA Electrical has produced solid earnings and this year was no exception.

ARA Security, managed by Tony Franov, had the second highest earnings year in its history. This division was the first ARA business to expand to New Zealand and had very positive results. A second New Zealand business was purchased at the start of financial year 2018. The Australian service business continues to do very well.

The most improved division in 2017 was ARA Fire. Brian Davies led the turnaround in this business unit. Strong operating results were delivered in most ARA Fire locations. The improvement in earnings in 2017 was the single biggest reason for the overall improvement in the Group EBITDA. Better service delivery and a cost reduction were the principal reasons for the turnaround.

The strategy to invest in and grow our ARA Building business has continued to be successful. ARA Building had the highest sales and earnings in its history. The principal reason for the strong result was the growth in the remedial building business. Tony Murr is the leader of this division. This division has the second highest operating margin in the ARA Group.

We have invested in several small technology businesses in ARA Mechanical in 2017. This division, led by Phil Harding, has consistently produced profits and good cash flow. With these acquisitions, it is in position to increase its volume and margins.

Once again, we would like to thank everyone – the senior management team, our employees, the Board of Directors and our shareholders for your support this financial year.

Leo Browne

Chair of the Board of Directors
ARA Group Limited

Edward Federman

Managing Director
ARA Group Limited

The Step Change

Of 2017

Financial year 2017 represented a significant and positive change for the ARA Group. It was a year of many accomplishments and positive changes.

CMC

The acquisition of CMC resulted in having a soft service (commercial cleaning) to offer our customers along with the ARA technical services (electrical, fire, security, mechanical, building).

This acquisition also involved ARA becoming a 49% partner in CMC Indigenous Services.

Step 1

Achieved record sales and earnings for the second consecutive year.

Step 2

Completed the largest acquisition in ARA history by two & a half times.

Step 3

Changed our bank arrangements to provide more flexibility to help ARA continue to grow.

Step 4

Although debt increased during the year to fund acquisitions and growth, the leverage ratio (net debt divided by EBITDA) is less than 1 time and net debt is only 19% of ARA's capital structure. The financial leverage
of ARA remains at a safe and affordable level.

EBIT covers net interest expense more than 9 times.

Step 5

Ended the financial year 2017 with a step change in shareholders' equity to $95 million from $67 million at the end of the prior financial year.

Approximately $7 million of subordinated debentures were exchanged for shares in ARA.

Approximately $18 million was raised in new equity and the equity issued for acquisitions.

ARA is genuinely an employee owned company with over 80 employees and the directors of ARA owning the company and the largest shareholder owning less than 36% of the company.

Step 6

2017 was the year that ARA expanded outside of Australia into New Zealand with the acquisition of an electronic security service business. This expansion was successful and ARA acquired a second electronic security service business in New Zealand at the start of financial year 2018.

Step 7

Improved the diversity of ARA in 2017 with female employees now 24% of total employees and the investment in CMC Indigenous resulted in meaningful employment of Indigenous Australians.

Step 8

The turnaround in the Fire Division was a resounding success in improved earnings, cash flow and sales growth. This improvement had a profound impact on the overall increase in EBITDA for ARA.

Step 9

In 2017, ARA completed a true multi service commercial fit out. The work involved every division of ARA. The value of the work was over $4 million and each division made a profitable contribution to its business.

Step 10

Completed another acquisition of a financially troubled business. ARA Electrical acquired a Sydney based underground high voltage business. The transaction had a positive outcome as 25 jobs and the related entitlements were maintained and creditors were paid some of the money owed to them. ARA Electrical extended its high voltage capabilities and is now one of the largest high voltage overhead and underground businesses in New South Wales.

Step 11

ARA Renewable Energy was established as a business unit. This new business unit is focused upon solar energy and complements the ARA Mechanical business that provides metering and energy management services. ARA believes this is a business segment that we will grow and develop. 2017 was a step change in this direction.

Step 12

The principal balance of the ARA Endowment Fund grew from approximately $500,000 a year ago to over $700,000 at 30 June 2017. The involvement of our employees continues to grow each year.

Step 13

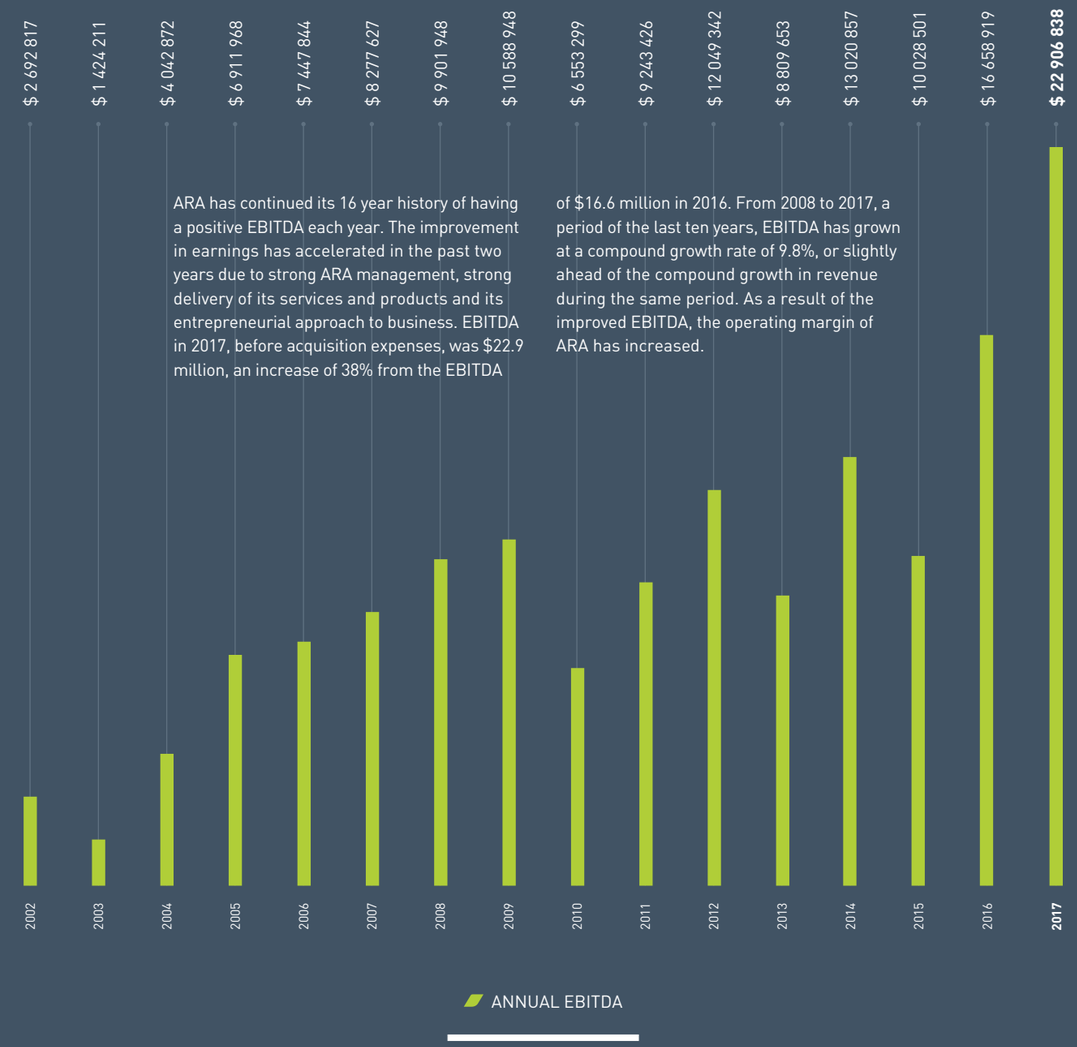
ARA shareholders approved a new constitution this financial year making ARA a non-listed public company. ARA can now have unlimited non-employee shareholders. The name of the company is now ARA Group Limited.

These were just some of the reasons why 2017 was a step change in the evolution of ARA. We have developed a great business culture within ARA as we have grown and developed during the past sixteen years. Our senior management team are all shareholders of ARA. There is a strong entrepreneurial spirit within ARA and we will continue to look for ways to grow our company responsibly, provide great opportunities for our employees, serve our customers well and provide a good return for our shareholders.

Financial Year Highlights

16 Years of Growth

ARA revenue grew $20 million, or 6%, to $372 million in 2017 from $352 million in 2016. This is the fifteenth year out of the sixteen years of the ARA business that revenue has increased from the prior year. From 2008 to 2017, a period of the last ten years, revenue has grown at a compound growth rate of 8.1%. The growth of ARA since its inception has been a combination of organic growth and strategic acquisitions.



ARA has continued its 16 year history of having a positive EBITDA each year. The improvement in earnings has accelerated in the past two years due to strong ARA management, strong delivery of its services and products and its entrepreneurial approach to business. EBITDA in 2017, before acquisition expenses, was $22.9 million, an increase of 38% from the EBITDA of $16.6 million in 2016. From 2008 to 2017, a period of the last ten years, EBITDA has grown at a compound growth rate of 9.8%, or slightly ahead of the compound growth in revenue during the same period. As a result of the improved EBITDA, the operating margin of ARA has increased.

16 Years of Profitability

Net Debt & Shareholders' Equity

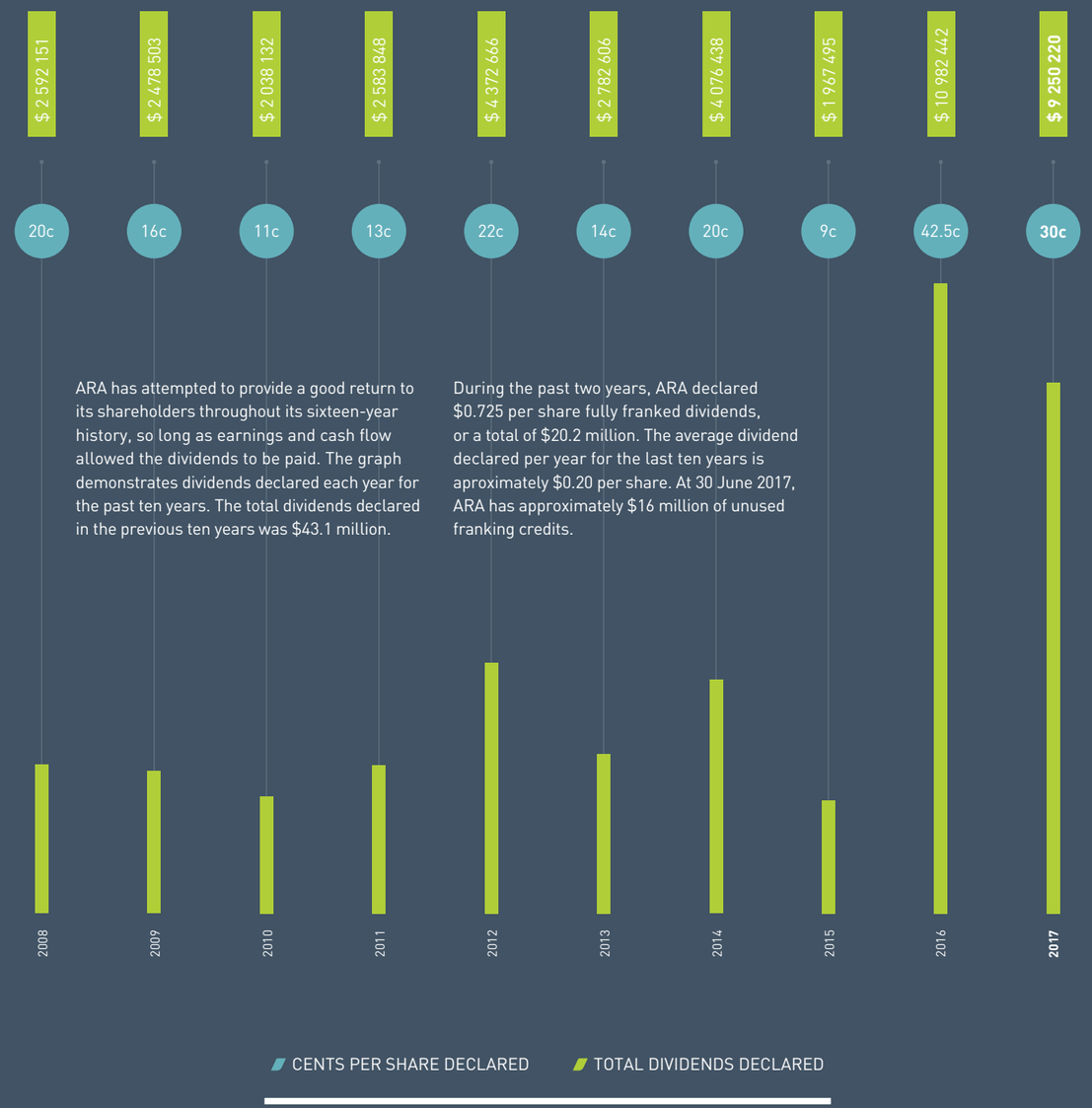
There was an increase of $28.4 million in shareholders' equity in financial year 2017 to $95.0 million from $66.6 million a year earlier. The reasons for the increase in shareholders' equity are net income for the year less the dividends declared ($3.4 million), and the issuance of ARA shares ($25.0 million) for the conversion and exchange of subordinated debentures, consideration for the purchase of businesses and purchases by shareholders of newly issued ARA shares.

The net debt (total debt less cash) increased this financial to $22.9 million from $13.3 million. The principal reason for the increase in net debt was to finance the acquisitions completed during the year. ARA has maintained a consistent level of net debt throughout its history as demonstrated in the graph. Net debt as a percent of total capital structure (net debt plus shareholders' equity) has been very consistent during the past ten years, averaging 18%. Net debt as a percent of total capital was 19% at 30 June 2017.

ARA Dividends

ARA has attempted to provide a good return to its shareholders throughout its sixteen-year history, so long as earnings and cash flow allowed the dividends to be paid. The graph demonstrates dividends declared each year for the past ten years. The total dividends declared in the previous ten years was $43.1 million.

During the past two years, ARA declared $0.725 per share fully franked dividends, or a total of $20.2 million. The average dividend declared per year for the last ten years is aproximately $0.20 per share. At 30 June 2017, ARA has approximately $16 million of unused franking credits.



03 ARA Initiatives

ARA Indigenous services

Awarded the Certified Supplier of the Year Award at the 2017 Supply Nation Supplier Diversity Awards in May 2017.

At the time of the acquisition of 100% of the CMC Property Services Group (CMC), ARA acquired 49% of CMC Indigenous Services (CMCIS). CMCIS is 51% owned by Michael O'Loughlin, the former Sydney Swans star player, and now ARA's business partner. CMCIS is certified by Supply Nation, an independent non-profit organisation, as an Indigenous business. Supply Nation was initially funded by the Commonwealth government in 2009 to assist in supplier diversity in government and industrial sectors of the economy. Supply Nation, now funded by members, has grown to be the leading organisation in supporting Indigenous businesses and supporting supplier diversity.

CMCIS has quickly evolved into a leading supplier of commercial cleaning services as evidenced by CMCIS being awarded the Certified Supplier of the Year Award at the 2017 Supply Nation Supplier Diversity Awards in May 2017. The award, held during Supply Nation's Connect Expo, recognised CMCIS as having created a prosperous, vibrant and sustainable Indigenous business. This was quite an achievement for CMCIS as it just completed its first full year of business operations in 2017.

As we integrate CMC Indigenous Services into the ARA Group, we will change the name to ARA Indigenous Services (ARAIS) and will evolve into a provider of each ARA service. This platform is a unique organic growth opportunity. ARAIS will place the various ARA services in a position to participate in the Federal Government's Indigenous Procurement Policy launched in 2015 to drive demand by the government for Indigenous goods and services.

ARA Integrated services

Medical Centre - NSW

It has been a goal of ARA that ARA Building be the "hub" of the group.

Since the acquisition of ARA Building in 2007, it has been a goal of ARA that this business be the "hub" of ARA in the provision of multiple ARA services simultaneously. There have been some notable successes. ARA Building is the nationwide service provider to a major bank's retail network of a combined essential service contract for electrical, mechanical and fire protection services. ARA Building has been the principal contractor for the successful retrofit work of a data centre and a major medical centre. In each situation, ARA Building used each ARA service to complete the project. These were major works and demonstrated the capability of ARA to integrate its services where it can make the project more efficient for the customer to have one supplier to deal with and hold accountable. ARA was able to self-deliver its capabilities through ARA Building.

The ARA Group is a decentralised organisation with each division having responsibility for the delivery of its services to its own clients and the management of its operating results. This structure results in some obstacles to the provision of integrated ARA services. ARA has been able to mitigate these issues to ensure that ARA's clients who desire integrated services get the best possible results.

Each senior operating manager is a major ARA shareholder. This has helped to create a culture of cooperation and the recognition that we are all working together for the ARA shareholders, most of whom are ARA employees.

The Board of Directors of ARA has strategically guided the company to be a unique provider of multiple technical services in Australia. ARA can self-deliver services in a manner unlike its competitors. An example of this is a recent inquiry that ARA received from a potential customer. He had a retail development that he was doing and he wanted to work with one company who could do everything. Based upon the ARA presence on the internet, he determined that ARA could do everything that he needed to complete his development.

ARA has been able to self-deliver now in many service and installation contracts. The strategy used to create and expand ARA during the past sixteen years has resulted in a true multi-service company.

ARA BUILDING

ARA FIRE

ARA ELECTRICAL

ARA MECHANICAL

ARA PRODUCTS

ARA SECURITY

ARA Products

Introducing the new ARA Products Division, the combination of ARA Manufacture and ARA Distribution.

ARA PRODUCTS

The significance and the importance of ARA Manufacture and ARA Distribution to the ARA Group has grown considerably in recent times. In particular, the acquisition of financially troubled Woodpend in the prior financial year resulted in the timber fire door manufacturing business and the fire door project installation business being transferred to ARA Manufacture whilst the distribution of architectural hardware and the locksmith service business transferred to ARA Distribution. This transaction resulted in ARA Manufacture and ARA Distribution working very closely together on many aspects of the business. ARA Manufacture is one of the largest customers for the architectural hardware. The sales force of ARA Distribution often has opportunities to sell doors or identify leads for Manufacture to follow up.

It has become operationally imperative that we combine ARA Manufacture and ARA Distribution into a new division called ARA Products. Stuart Harmer from ARA Distribution is now the Managing Director of ARA Products working closely with Mark Pamula and his team from ARA Manufacture. Together the combined management team is looking at how they can build the sales of both parts of this newly formed division.

ARA Divisions

2017 Revenue

$372 Million

REVENUE Comprised of

71% Service

15% Construction

14% Product

ARA Divisions

ARA SECURITY | ARA PROPERTY SERVICES | ARA MECHANICAL | ARA BUILDING | ARA ELECTRICAL | ARA FIRE | ARA PRODUCTS

REVENUE Divisions In 2017

Security	Property Services	Mechanical	Building	Electrical	Fire	Products
$53 million	$9 million (Last 2 months of 2017)	$49 million	$44 million	$91 million	$79 million	$47 million
Integration of and solutions for electronic security	Commercial cleaning and maintenance	Energy management of commercial buildings	Versatile building and maintenance services	Electrical, high voltage, data and engineering	All aspects of fire protection	Distribution & tech support for industrial products

DIVISION Capabilities

- **Security:** Access Control; CCTV; ATM Security & Guarding; ATM Maintenance (FLM); Cash In Transit Solutions; Electronic Security Solutions
- **Property Services:** Commercial Cleaning; Grounds Maintenance; Waste Management & Recycling; Flood & Fire Restoration
- **Mechanical:** HVAC Design; Mechanical Ventilation; Air Conditioning; Chiller Plants; Building Automation; Energy Management; Metering
- **Building:** Remedial Building Repairs; 24/7 Emergency Service; Exterior & Interior Design; Installations; Construction; Fit Outs; Refurbishments; Multi Trade Services
- **Electrical:** High Voltage Services; Low Voltage Services; Engineering Solutions; Installation Services; Switchboards; Mobile Switch Rooms; Data Centres; Structured Cabling
- **Fire:** Inspection & Testing; Sprinkler Systems; Detection & EWIS; Passive & Fire Doors; Portable Systems; Special Hazards; Oxygen Reduction; Pipe Fabrication
- **Products:** Access Control; CCTV; Photo ID Systems; Identity Security; Architectural Hardware; Locksmith Services; Commercial Doors; Industrial Doors; High Security Doors; Specialty Doors & Windows

Acquired May 2017
Estimated Annual Revenue
Property Services & ARA Indigenous
approx
$56 Million

INDIGENOUS Services

ARA INDIGENOUS SERVICES

Operates within ARA Property Services with a plan to operate throughout all ARA divisions in the future.

REVENUE Indigenous

$2 million
Last 2 months of 2017

Principal balance of over $700,000 at 30 June 2017.

ARA ENDOWMENT FUND

Our Locations

KEY BY BUSINESSES

- SECURITY
- PROPERTY SERVICES
- MECHANICAL
- BUILDING
- ELECTRICAL
- FIRE
- PRODUCTS
- INDIGENOUS SERVICES

AUSTRALIA

ACT
- CANBERRA

NSW
- BELROSE
- CARINGBAH
- COFFS HARBOUR
- INGLEBURN
- KINGSGROVE
- KINGS PARK
- MEDOWIE
- MUDGEE
- NOWRA
- RYDALMERE
- SINGLETON
- STANMORE
- TUGGERAH
- WAUCHOPE
- WOLLONGONG

QLD
- BUNDABERG
- EAGLE FARM
- KINGSTON
- LOGANHOLME
- TINGALPA

SA
- ADELAIDE
- REGENCY PARK

VIC
- ARDEER
- PORT MELBOURNE

WA
- KALGOORLIE
- PERTH

NEW ZEALAND
- AUCKLAND
- KERIKERI

Our Leadership Team

The ARA senior management team is a critical element for the success of the ARA Group. There has been significant continuity of all the senior managers. They have worked together to help create the ARA culture where employees are valued and the senior managers work together as a team. This group of leaders is one of ARA's greatest assets.

ALLISON McCANN
CHIEF FINANCIAL OFFICER
ARA Group
6 years with ARA

BRIAN DAVIES
MANAGING DIRECTOR
ARA Fire
11 years with ARA

BRETT CHAMBERS
MANAGING DIRECTOR
ARA Electrical
16 years with ARA

PAUL McCANN
MANAGING DIRECTOR
ARA Property Services
Acquired in 2017 | 24 years with CMC

STUART HARMER
MANAGING DIRECTOR
ARA Products
8 years with ARA

PHIL HARDING
MANAGING DIRECTOR
ARA Mechanical
11 years with ARA

TONY FRANOV
MANAGING DIRECTOR
ARA Security
16 years with ARA

TONY MURR
MANAGING DIRECTOR
ARA Building
13 years with ARA

ARA Sustainability

ARA Sustain-ability

For ARA, sustainability is the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs.

To achieve sustainability in our work at ARA, we take responsibility for the impacts of our decisions and activities on the community and the environment.

This year we performed a Materiality Assessment. This Assessment identified the sustainability issues that are important to us at ARA.

The Materiality Assessment can help us determine which sustainability initiatives to focus upon. We can better understand what is of interest to all our stakeholders and engage in a meaningful manner with the community and the environment.

The Materiality Matrix (see right) displays the sustainability issues currently identified at ARA. The highest priority issues were workforce diversity and inclusion, employee engagement (including labour practices), climate change and community engagement and development.

Materiality Matrix

People

1. Workforce health and safety
2. Workforce training and development
3. Workforce diversity and inclusion – gender
4. Employee engagement, incl. labour practices

Environment

5. Energy, including renewables
6. Climate Change

Community

7. Community engagement and development
8. Sustainable business processes

Product

9. Product / service quality and sustainability

Business ethics

10. Corporate governance
11. Supply Chain responsibility

Our Materiality Assessment included a review of our peers - both competitors and clients, investigation of the media related to our industry, a review of internal documentation and a workshop conducted by Ernst & Young with senior management where we prioritised the issues identified to create a materiality matrix.

Highlights

People

For more than five years, ARA has been reporting to the Workplace Gender Equality Agency. Since the start of our reporting, ARA has been designated as compliant.

The percentage of our female employees has been increasing steadily. We are pleased to report that as of 30 June 2017, 24% of our employees are female, our highest level of female employment to date.

Effective 3 August 2017, Allison McCann, ARA's Chief Financial Officer, was appointed a Director of ARA Group Limited. Allison is the first female to serve on ARA's Board of Directors.

Environment

ARA has embarked upon a regime of achieving ISO certification for Environmental Management Systems. Currently, ARA Fire, ARA Mechanical and ARA Electrical have realised accreditation for all or parts of its business.

ARA has developed a Sustainability Portal for use by all its operations. This Portal, based upon information provided by our businesses, determines CO2 emissions from our vehicle fleet, air travel for work, power consumption and general waste. The information being gathered will calculate our current base level of CO2 emissions and we will endeavour to measure such emissions in the future to target and measure our reductions in emissions.

ARA In The Community

ARA has been a Champion Sponsor to Taronga Zoo for more than ten years.

ARA was a sponsor of the Shoulder to Shoulder walk from Dubbo to the Taronga Zoo in 2016.

ARA has provided pro bono facility service work for many years at Bear Cottage, a facility for children who are terminally ill and their families.

ARA was a Major Sponsor of the Sydney Writers Festival for the past two years and has committed to being a Principal Partner of the Writers Festival for the next five years.

ARA has donated annually to the Variety Club Christmas Function for children in Melbourne for many years.

Support
We have had the opportunity to support these great organisations during the past financial year.

ARA Endowment Fund

ARA recognises that it has an important role to play in the communities in which we operate. We take seriously our corporate social responsibility. As a means to reach the greatest number of people with limited resources in the near term, ARA established the ARA Group Endowment Fund in 2009. The Endowment Fund is managed by Equity Trustees as a part of its Charitable Foundation. This structure ensures that the ARA Group Endowment Fund is a registered Australian charity and all the donations made to the Fund are tax deductible. The ARA Group Endowment Fund require all earnings of the Fund be donated to registered Australian charities each financial year. Since its inception, the Fund has contributed to more than 40 different Australian charities.

ARA employees who donate to the Fund recommend charities in their community that they would like to see the Fund support. The Advisory Board to the Fund makes the final decision, taking into account the recommendation of the employees who donate to the Fund. More than 150 ARA employees make regular contributions to the Fund.

The Fund continues to thrive and as of the end of June 2017 has a principal balance in excess of $700,000.

Audited Financial Statements

Directors' report

Your directors submit their report on ARA Group Limited (the "Company") and its controlled entities (collectively the "Group") for the year ended □□ June □□□□□

Directors

The names and details of the Company's directors and officers during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Leo Browne, (Non-Executive Chair)

Leo Browne is a co-founder and Non-Executive Chair of ARA Group Limited. Leo has over fifty years experience in the building services industry. Leo also serves on the Group's Audit Committee and is chair of the Compensation Committee. Leo Browne stepped down as Chair of the Board effective □ August □□□□ but remains a Non-Executive Director.

Edward Federman (Executive Director)

Edward Federman is a co-founder and Managing Director of ARA Group Limited. Edward has an MBA and has over thirty years experience in the building services industry. Edward also serves on the Group's Compensation Committee. Edward Federman has been appointed Chair of the Board effective □ August □□□□□

James Marshall (Non-Executive Director)

James Marshall joined the Board as a Non-Executive Director in □□□□□James is a corporate lawyer and Head of Restructuring at Ashurst law firm. James' legal and commercial experience brings a breadth of expertise to the Board. James also serves on the Group's Audit Committee.

Brett Chambers (Executive Director)

Brett Chambers joined the Board as an Executive Director in □□□□□Brett has over thirty years experience in the electrical industry and has worked for ARA since □□□□□Brett is the Managing Director of the ARA Electrical Division.

Brian Davies (Executive Director)

Brian Davies joined the Board as an Executive Director in □□□□□Brian has over thirty years experience in the fire industry and has worked for ARA since □□□□□Brian is the Managing Director of the ARA Fire Division.

Norbert Schweizer (Non-Executive Director)

Norbert Schweizer joined the Board as a Non-Executive Director in □□□□□Norbert is a corporate lawyer and founder of Schweizer Kobras legal practice. Norbert has extensive experience in corporate law.

Peter Browne (Non-Executive Director) (resigned 23 February 2017)

Peter Browne joined the Board in □□□□□Peter has extensive experience running an electrical supply business.

Company Secretary

Allison McCann (Company Secretary)

Allison McCann was appointed Company Secretary in □□□□□Allison is the Group's Chief Financial Officer and has worked for ARA since □□□□□Allison is a chartered accountant has over fourteen years finance and commercial experience. Allison also serves on the group's Compensation Committee. Allison McCann has been appointed a Director effective □ August □□□□□

David Sefton (Company Secretary)

David Sefton was appointed Company Secretary in □□□□□David is the Group's Chief Risk Officer and has worked for ARA since □□□□□David is a corporate lawyer with over thirty years experience.

Directors' report (continued)

Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

Directors	Number of Board meetings held	Number of Board meetings attended	Number of compensation committee meetings held	Number of compensation committee meetings attended
Leo Browne	□□	□□	□	□
Edward Federman	□□	□□	□	□
James Marshall	□□	□□	□	□
Brett Chambers	□□	□□	□	□
Brian Davies	□□	□□	□	□
Norbert Schweizer	□□	□□	□	□
Peter Browne	□	□	□	□
Allison McCann (Company Secretary)	□□	□□	□	□

Results of operations

The total comprehensive income of the economic entity for the financial year after providing for income tax amounted to $12,626,922 □2016: total comprehensive income $8,386,883). The total comprehensive income increased 51% from the previous year.

The increase in total comprehensive income was principally due to increases in earnings at the Group's Fire Division during the financial year and strong performances from the Building and Products Division.

Review of operations

Total sales of the Group's products and services were $372,332,384 in 2017 compared with $352,322,332 in 2016, an increase of $20 million, or 6%. The Group's earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to $22,906,838 in 2017 (before acquisition expenses) compared with $16,658,919 in 2016 (before acquisition expenses), an increase of $6 million, or 38%. The Group's EBITDA before acquisition expenses and profit sharing expense was $26 million in 2017 (7% of revenue) and $19.7 million in 2016 (5.6% of revenue).

Earnings before interest, tax, depreciation, amortisation and profit sharing expense summary

	2017	2016
	$	$
Earnings before interest, tax, depreciation, amortisation and profit sharing expense	26,093,930	19,746,416
Depreciation and amortisation expense	2,530,741	2,049,570
Net interest expense	2,094,728	2,235,436
Acquisition expense	471,023	208,382
Profit sharing expense	3,187,092	3,087,497
Profit before income tax	**17,810,346**	**12,165,531**

All divisions performed very well with improved EBITDA in all divisions with the exception of our Electrical Division. The decline in earnings in our Electrical Division was due to an exceptional year of earnings in the division in 2016, and in particular one large contract which was completed in early 2017. The division continues to perform well and has strong backlog going into 2018.

Directors' report (continued)

Review of operations (continued)

The Group made two major acquisitions during the financial year. The largest acquisition was a national cleaning business, CMC Property Services Group (CMC) which is now the Group's seventh division, ARA Property Services. This was a strategic acquisition in terms of size and new service offering for the Group. The second largest acquisition was a financially troubled high voltage business based in □□□ . The acquisition expands the geographic spread of the Group's existing high voltage service offering. Seven other smaller bolt on acquisitions were made during the year in the Group's Security, Building and Mechanical Divisions.

Throughout the financial year the operating businesses maintained a strong forward order book. At □□ June □□□□ the confirmed forward orders totalled approximately $131 million □□□ June □□□□□$123 million). The backlog remains strong across all divisions.

The Group's net senior bank debt (senior bank debt less cash) increased □□$13.24 million from $8.7 million at □□ June □□□□ to $21.9 million at □□ June □□□□. The increase in net senior bank debt is due to an increase in borrowings to pay for the acquisition of CMC. Virtually all of the previously issued Subordinated Convertible Debentures had converted to ARA Group ordinary shares at □□ June □□□□. At □□ June □□□□, $350,000 8% Subordinated Debentures remained outstanding.

The overall EBITDA operating margin increased during the □□□□ financial year to 6% of sales from 5% of sales in 2016. This positive improvement demonstrates that many of management's initiatives to improve the operating margin are working. The Group will continue to seek to improve its operating margin in 2018.

Principal activities

The principal activities of the economic entity during the financial year were the provision of essential building services (installation and service) such as fire protection services, electrical, electrical engineering and high voltage services, electronic security services and products, air conditioning, facilities management, building fit out and building repairs and building automation, cleaning services and the manufacturing of specialised building products such as steel doors, ballistic doors and partitions, steel security and steel fire doors, aluminium security shutters and grilles. The acquisitions in □□□□ increased the activities of the companies in the economic entity during the year.

Significant changes in the state of affairs

During the year, the Group issued 8,724,623 new shares, increasing the number of shares issued from 27,407,942 at □□ June □□□□ to 36,132,565 at □□ June 2017. This increased contributed equity □□ $25,033,866 from $49,107,727 at □□ June □□□□ to $74,141,593 at □□ June 2017.

The issue of new shares relate to:

□2,734,666 new shares issued on conversion and exchange for subordinated debentures
□3,464,333 new shares issued as purchase consideration for businesses acquired, and
□2,525,624 newly issued shares to new and existing shareholders.

The Group made a number of acquisitions during the year, as discussed above.

There were no other significant changes in the state of affairs of the Group during the financial year.

Significant events after the reporting period

There have been no significant events occurring after the reporting period which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Directors' report (continued)

Future developments

The Group will continue to focus on margin improvements in all of its businesses, although it is recognised that the competitive environment and the state of some sectors of the local economy makes it difficult for significant margin increases.

The Group's acquisition strategy will remain consistent in its approach to examine opportunities that complement its current services and products. One element of the Group's acquisition strategy is to acquire companies that increase the overall operating margin of the Group. It is expected the Group will continue to focus on organic growth and improved operating margins in 2018, although appropriate acquisition opportunities will be thoroughly investigated. It remains the goal of the Directors to pay $0.075 dividends per share each quarter in 2018.

□□the Group identifies appropriate acquisitions in □□□□ it will likely use a combination of new equity, cash flow from operations, and borrowings to finance any acquisitions, as it did in 2017. The goal of the Group remains that its net debt will not exceed 30% of its total capital structure. At □□ June 2017, net debt was $21.9 million, or 19% of its capital structure ($8.7 million at □□ June □□□□ and 11.5% of its capital structure). The increase in debt was due to the debt funding for the acquisition of CMC. At □□ June 2017, the leverage ratio (total senior bank debt excluding bank guarantees, divided by the trailing twelve months EBITDA, adjusted for acquisitions made during the year) was 0.94 □□□ June □□□□□0.50).

Environmental regulations

The economic entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory. The Group has embarked upon a plan to reduce its carbon footprint in the environment. The Group has implemented an Environmental Management Policy and continues to work towards □□□ accreditation.

Dividends

Fully franked dividends amounting to $9,250,220, or $0.30 per share, were declared during the financial year □□□□□□$10,982,442 or $0.425 per share). $2,709,943, or $0.075 per share, was paid on □□ July 2017 and was provided for at □□ June 2017. The Group has paid $0.35 per share in each of the last two financial years.

Share options

No option to acquire shares in the Group has been granted to any person. No shares have been issued during the financial year or since the end thereof by virtue of the exercise of any options. There are no unissued shares under option at the date of this report.

Indemnification and insurance of directors and officers

Insurance premiums of $27,328 were paid during the financial year for Directors and Liability Insurance.

Indemnification of auditors

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Proceedings on behalf of the Group

No person has applied for leave of the Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

Directors' report (continued)

Auditor independence declaration

The directors have received a declaration from the auditor of ARA Group Limited and Controlled Entities□This has been included on page □6□

Signed in accordance with a resolution of the Board of Directors made pursuant to section □□□□□□of the *Corporations Act 2001:*

Edward Federman
Executive Director
□August □□□□

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of ARA Group Limited

As lead auditor for the audit of ARA Group Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of ARA Group Limited and the entities it controlled during the financial year.

Ernst & Young

Chris Lawton
Partner
Sydney
4 August 2017

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2017

	Notes	2017 $	2016 $
Revenues			
Other income			
Changes in inventories of finished goods and work in progress			
Raw materials and consumables used			
Employee benefits expense			
Management and sub contract fees			
Profit sharing expense			
Depreciation and amortisation expense			
Finance costs			
Other expenses from ordinary activities			
Acquisition expenses			
Profit before income tax expenses		**17,810,346**	**12,165,531**
Income tax expense			
Net profit for the year		**12,490,188**	**8,386,883**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net gain on cash flow hedges, net of tax			
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**136,734**	**-**
Other comprehensive income for the year		**136,734**	**-**
Total comprehensive income for the year		**12,626,922**	**8,386,883**
Total comprehensive income for the year is attributable to:			
Owners of the Parent			
Non-controlling interests			
		12,626,922	**8,386,883**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

As at 30 June 2017

	Notes	2017 $	2016 $
Assets			
Current assets			
Cash and cash equivalents			
Trade and other receivables			
Inventories and construction work in progress			
Prepayments			
Total current assets			
Non-current assets			
Other financial assets			
Property, plant and equipment			
Deferred tax assets			
Goodwill and intangible assets			
Total non-current assets			
Total assets		**223,504,994**	**165,485,342**
Liabilities and equity			
Current liabilities			
Trade payables			
Other payables			
Interest-bearing loans and borrowings			-
Income tax payable			
Employee benefits			
Total current liabilities			
Non-current liabilities			
Trade and other payables			
Interest-bearing loans and borrowings			
Subordinated debentures			
Deferred tax liabilities			
Employee benefits			
Total non-current liabilities			
Total liabilities		**128,456,302**	**98,847,218**
Net assets		**95,048,692**	**66,638,124**
Equity			
Contributed equity			
Other reserves			
Retained earnings			
Non-controlling interests			-
Total equity		**95,048,692**	**66,638,124**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Contributed equity (Note 16)	Retained earnings	Other reserves (Note 16)	Non-controlling interests	Total equity
	$	$	$	$	$
At 1 July 2015	**39,527,722**	**22,965,820**	**(1,582,511)**	**-**	**60,911,031**
Profit for the year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other comprehensive income	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total comprehensive income for the year	**-**	[illegible]	[illegible]	[illegible]	[illegible]
Transactions with owners in their capacity as owners:					
Shares issued during the year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dividends paid or provided for	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Equity portion of convertible debentures issued	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
At 30 June 2016	**49,107,727**	**20,370,261**	**(2,839,864)**	**-**	**66,638,124**
At 1 July 2016	**49,107,727**	**20,370,261**	**(2,839,864)**	**-**	**66,638,124**
Profit for the year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other comprehensive income	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total comprehensive income for the year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Transactions with owners in their capacity as owners:					
Shares issued during the year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dividends paid or provided for	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
At 30 June 2017	**74,141,593**	**23,527,496**	**(2,703,130)**	**82,733**	**95,048,692**

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2017

	Notes	2017 $	2016 $
Operating activities			
Receipts from customers		[illegible]	[illegible]
Payments to suppliers and employees		[illegible]	[illegible]
Dividends received		[illegible]	[illegible]
Interest received		[illegible]	[illegible]
Borrowing costs paid		[illegible]	[illegible]
Income tax paid		[illegible]	[illegible]
Net cash flows from operating activities	[illegible]	**10,082,138**	**15,424,647**
Investing activities			
Purchase of plant and equipment		[illegible]	[illegible]
Proceeds from sale of plant and equipment		[illegible]	[illegible]
Payment for investments and businesses acquired	[illegible]	[illegible]	[illegible]
Net cash flows used in investing activities		**(23,352,485)**	**(10,851,466)**
Financing activities			
Proceeds from borrowings		[illegible]	[illegible]
Repayment of borrowings		[illegible]	[illegible]
Proceeds of subordinated debentures		[illegible]	[illegible]
Payment of finance lease liabilities		[illegible]	[illegible]
Proceeds from issued capital		[illegible]	[illegible]
Dividends paid [illegible] owners of the parent entity		[illegible]	[illegible]
Net cash flows from financing activities		**16,348,557**	**1,709,520**
Net increase in cash and cash equivalents		[illegible]	[illegible]
Cash and cash equivalents at [illegible] July		[illegible]	[illegible]
Cash and cash equivalents at 30 June	[illegible]	**15,751,960**	**12,673,750**

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2017

1. Corporate information

The consolidated financial report of ARA Group Limited and its controlled entities (the "Group") for the year ended □□ June □□□□ were authorised for issue in accordance with a resolution of the directors on □ August □□□□□

ARA Group Limited (the "Company") is a for-profit company limited □□ shares, incorporated and domiciled in Australia.

The registered office and principal place of business of the parent entity is □□ Bridge Road, Stanmore, □□□ , □□□□□

The nature of the operations and principal activities of the Group are described in the directors' report.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards - Reduced Disclosure Requirements and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis□

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar □$) unless otherwise stated.

For the year ended □□ June □□□□, the Group prepared its special purpose financial statements in accordance with the recognition and measurement principles of all applicable Australian Accounting Standards and Interpretations issued □□ the Australian Accounting Standards Board. These financial statements for the year ended □□ June □□□□ are the first the Company has prepared in accordance with the Australian Accounting Standards - Reduced Disclosure Requirements (AASB - RDRs), which has resulted in the exclusions/inclusions of certain disclosures.

There were no other impacts on the current year or prior year financial statements.

The financial report is presented in Australian dollars □$).

Statement of compliance

The financial statements of the Group comply with Australian Accounting Standards - Reduced Disclosure Requirements as issued □□ the Australian Accounting Standards Board (AASB). The Company is a for-profit, private sector entity which is not publicly accountable. Therefore, the consolidated financial statements for the Group are general purpose financial statements which have been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards - Reduced Disclosure Requirements and other authoritative pronouncements of the Australian Accounting Standards Board.

2.2 Changes in accounting policies, standards and interpretations

i) New and amended standards and interpretations

The Group applied, for the first time, certain standards and amendments which are effective for annual periods beginning on or after □ July □□□□□The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies, standards and interpretations (continued)

i) New and amended standards and interpretations (continued)

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in □□□□□they did not have a material impact on the Group financial statements. The nature of each new standard or amendment applied are described below:

AASB 2015-2 ***Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101***

The amendments to AASB □□□ clarify, rather than significantly change, existing AASB □□□ requirements. The amendments clarify:

- □ The materiality requirements in AASB □□□
- □ That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- □ That entities have flexibility as to the order in which they present the notes to financial statements
- □ That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any material impact on the Group.

AASB 2015-1 ***Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle***

AASB □□□ *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. □ □en there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

These amendments do not have any material impact on the Group.

ii) Accounting standards and interpretations issued but not yet effective

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended □□ June □□□□. The directors have not early adopted any of these new or amended standards or interpretations. The directors have not yet fully assessed the impact of these new or amended standards (to the extent relevant to the Group) and interpretations.

2.3 Basis of consolidation

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the Subsidiaries are prepared for the same reporting period as ARA Group Limited, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

2.3 Basis of consolidation (continued)

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Non-controlling interests are allocated their share of net profit after tax in the consolidated statement of profit or loss and other comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the Parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the Parent's share of components previously recognised in other comprehensive income to profit or loss, or retained earnings, as appropriate.

a) Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

a) Current versus non-current classification (continued)

- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

b) Income tax

The charge for income tax expense for the year is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the statement of tax balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the consolidated statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

ARA Group Limited and its wholly-owned subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from July 2004. The consolidated group has entered into a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to profit before tax of the tax consolidated group.

c) Trade and other receivables

Trade receivables, which generally have day terms, are recognised initially at fair value and subsequently measured at that value less an allowance for impairment. Due to their short-term nature they are not discounted.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than days overdue are considered objective evidence of impairment.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

d) Inventories

Raw material and stores, work in progress and finished goods are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

e) Construction contracts and work in progress

Construction work in progress is valued at cost, plus profit recognised to date less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts, and those costs that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

The stage of completion of each project is assessed using the proportion of costs incurred to date compared to the total cost. Construction profits are recognised on this percentage of completion. Where losses are anticipated they are provided for in full.

Construction revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

f) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

Plant and equipment

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including capitalised leased assets are depreciated on a straight line basis over their estimated useful lives to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Class of fixed asset	***Depreciation rate***
Leasehold improvements	□□ - 20%
Plant and equipment	7.5 - 40%
Office furniture and equipment	7.5 - 20%
Computer equipment and software	□□ - 40%
Motor vehicles	22.5%

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

g) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that assets is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss and other comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

h) Goodwill

Goodwill acquired and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for a controlling interest in an entity exceeds the fair value attributed to its net tangible and identified intangible assets at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

i) Impairment

The carrying value of all assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of all assets is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the CGU to which it belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of the asset or CGU exceeds its estimated recoverable amount. The asset or CGU is then written down to its recoverable amount.

j) Foreign currency transactions and balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

Both the functional and presentation currency of the Group is Australian dollars ($).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

k) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within □□ - □□ days of recognition.

l) Interest-bearing loans and borrowings

All loans and borrowings are recognised at the fair value of the consideration received. Fees paid on the establishment of loan facilities are amortised over the term of the loans.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

m) Employee entitlements

Provision is made for the Group's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at an amount that is considered to approximate the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred.

n) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are expensed when incurred.

o) Dividend to equity holders of the parent

The Group recognises a liability to make cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Group. A corresponding amount is recognised directly in equity.

p) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and disclosed separately in the consolidated statement of profit or loss and other comprehensive income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

p) Business combinations (continued)

Change in the ownership interest in a controlled entity (without loss of control) is accounted for as a transaction with owners in their capacity as owners and these transactions will not give rise to a gain or loss. Where there is a change in ownership and the Group loses control, the gain or loss will be recognised in the consolidated statement of profit or loss and other comprehensive income.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with AASB □□□ in the consolidated statement of profit or loss and other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

q) Research and development expenditure

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

r) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than three months and net of bank overdrafts.

s) Revenue

Revenue from the sale of goods is recognised upon the transfer of title to customers.

Revenue from construction contracts is recognised in accordance with the accounting policy set out in the note □□e).

Interest revenue

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the effective life of the financial asset to the net carrying amount of the financial asset.

Dividend revenue

Dividend revenue is recognised when the right to receive a dividend has been established.

Rendering of services

Revenue from the rendering of a service is recognised upon the performance of the service to the customers.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

t) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

u) Financial instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit and loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and subsequent measurement

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

u) Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Convertible debentures

Convertible debentures are separated into liability and equity components based on the terms of the contract. On issuance of the convertible debentures, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not re-measured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debentures based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

v) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income (OCI) and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a high probable forecast transaction. The Group currently has cash flow hedges attributable to future interest payments.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

v) Derivative financial instruments and hedge accounting (continued)

Cash flow hedges (continued)

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised□□ □en the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

w) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Judgement

The Group considers that the entity in which it owns less than 50% of the voting rights meets the requirements under accounting standards to be consolidated as part of the Group. Although ARA Group Limited hold 49% of the share capital of the entity with the remaining 51% being held by one other party, ARA Group Limited has the casting vote in Board decisions in the event of a deadlock.

Key estimates - Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to an impairment of assets. □ □ere an impairment exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Key estimates - Long service leave

As discussed in Note □□m), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Key estimates - Estimation of useful life of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), leased terms (for leasehold improvements) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary. Depreciation charges are included in Note □□□□

Key estimates - Costs to complete on construction contracts

The stage of completion of each project is assessed using the proportion of costs incurred to date compared to the total estimated cost. Construction profits are recognised on this percentage of completion. □ □ere losses are anticipated they are provided for in full.

Key estimates - Impairment of goodwill with indefinite useful life

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the CGUs, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. No impairment loss was recognised in the current year or the prior year in respect of goodwill.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

2. Summary of significant accounting policies (continued)

w) Critical accounting estimates and judgements (continued)

Key estimates - Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is possible that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Key estimates - Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the consolidated statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the consolidated statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the consolidated statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

3. Business combinations and acquisition of non-controlling interests

Acquisitions in 2017

Effective □ May □□□□□the Group acquired CMC Property Services Group (CMC) for cash consideration of $12,100,000, □□□□□□□□□ shares in ARA Group Limited at $3 per share and a deferred consideration amount of $3,000,000 payable over □years.

CMC is a national cleaning and property maintenance group.

100% of the share capital of the CMC entities was acquired with the exception of CMC Indigenous Services Pty Ltd. 49% of the share capital of CMC Indigenous Services Pty Ltd was acquired. The assets acquired were measured at fair value.

The accounting for the acquisition will be completed within twelve months of acquisition. At □□ June □□□□□the acquisition has been provisionally accounted for. At the date of acquisition, CMC had issued a total of $316,400 bank guarantees. All outstanding bank guarantees at □□ June □□□□ are disclosed in the contingent liability note.

Effective □□ November 2016, the Group purchased the business and certain assets from a □□□ business Poles & Underground Pty Ltd (Administrators Appointed) "Poles & Underground" and Icon Plant Pty Ltd (Administrators Appointed). Poles & Underground provide overhead and underground transmission infrastructure services.

The total purchase price for the acquisition was $2,843,548. At the date of acquisition, the business had issued a total of $671,024 bank guarantees. All outstanding guarantees at □□ June □□□□ are disclosed in the contingent liability note.

No contingent liabilities were identified at the acquisition date for any business combinations acquired.

Included in other acquisitions are two small acquisitions with a deferred contingent consideration component of $424,000.

Assets acquired and liabilities assumed

The below table discloses the fair values of the identifiable assets and liabilities of acquisitions in □□□□ as at the date of acquisition:

Fair value recognised on acquisition

	CMC	P&U	Others	Total
	$	$	$	$
Assets				
Receivables	8,534,027	□	602,651	9,136,678
Inventories	305,264	□	88,705	393,969
Other assets	4,325	□	□□□□□	13,125
Property, plant and equipment	□□□□□□□□□	983,542	470,463	□□□□□□□□□
Deferred tax asset	□□□□□□□	□□□□□□□	162,706	686,022
	10,604,476	**1,093,720**	**1,333,325**	**13,031,521**
Liabilities				
Payables and other liabilities	8,540,520	983,626	906,918	10,431,064
Total identifiable net assets at fair value	**2,063,956**	**110,094**	**426,407**	**2,600,457**
Goodwill arising on acquisition	23,036,044	2,733,454	5,420,795	□□□□□□□□□
Purchase consideration transferred	**25,100,000**	**2,843,548**	**5,847,202**	**33,790,750**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

3. Business combinations and acquisition of non-controlling interests (continued)

Fair value recognised on acquisition (continued)

	CMC	P&U	Others	Total
	$	$	$	$
Purchase consideration				
Shares issued, at fair value	10,000,000	□	611,500	10,611,500
Cash	12,100,000	2,843,548	4,811,702	19,755,250
Provision	3,000,000	□	424,000	3,424,000
Total consideration	**25,100,000**	**2,843,548**	**5,847,202**	**33,790,750**
Net cash outflow on acquisition				
Cash consideration	12,100,000	2,843,548	4,811,702	19,755,250
Deferred consideration paid for an acquisition made in prior year	□	□	849,844	849,844
	12,100,000	**2,843,548**	**5,661,546**	**20,605,094**

4. Revenue and expenses

4.1 Revenue

	2017	2016
	$	$
Sale of goods	50,986,371	39,944,187
Rendering of services	265,760,926	240,892,180
Construction revenue	55,585,087	71,485,965
	372,332,384	**352,322,332**

4.2 Other income

	2017	2016
	$	$
Dividends	1,056	1,214
Interest	18,208	18,458
Profit on disposal of property, plant and equipment	157,534	82,257
Other income	78,773	90,582
	255,571	**192,511**

4.3 Finance costs

	2017	2016
	$	$
Borrowing costs		
□External interest paid	**2,112,936**	**2,253,894**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

4. Revenue and expenses (continued)

4.4 Depreciation and amortisation expense

	2017	2016
	$	$
Depreciation of non-current assets		
Leasehold improvements	[illegible]	[illegible]
Plant and equipment	[illegible]	[illegible]
Office furniture and equipment	[illegible]	[illegible]
Computer equipment and software	[illegible]	[illegible]
Motor vehicles	[illegible]	[illegible]
Total depreciation	**2,358,885**	**1,888,700**
Amortisation		
Amortisation of borrowing costs	[illegible]	[illegible]
Amortisation of development costs	[illegible]	[illegible]
Amortisation of intellectual property	[illegible]	[illegible]
Total amortisation	**171,856**	**160,870**
Total depreciation and amortisation expenses	**2,530,741**	**2,049,570**

4.5 Other expenses from ordinary activities

	2017	2016
	$	$
Rent and outgoings	[illegible]	[illegible]
Motor vehicle expense	[illegible]	[illegible]
Leasing costs	[illegible]	[illegible]
Consultants	[illegible]	[illegible]
Communication	[illegible]	[illegible]
Insurances	[illegible]	[illegible]
Repairs and maintenance	[illegible]	[illegible]
Computer expenses	[illegible]	[illegible]
Travel	[illegible]	[illegible]
Other staff expenses	[illegible]	[illegible]
Refinancing costs	[illegible]	[illegible]
Other expenses	[illegible]	[illegible]
	32,800,413	**36,146,555**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

5. Income tax

Consolidated statement of profit or loss and other comprehensive income	2017	2016
	$	$
Current income tax:		
Current income tax charge	[illegible]	[illegible]
Adjustments in respect of current income tax of previous year	[illegible]	[illegible]
Deferred tax:		
Relating to origination and reversal of temporary differences	[illegible]	[illegible]
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**5,320,158**	**3,778,648**

The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

	2017	2016
	$	$
Accounting profit before income tax	**17,810,346**	**12,165,531**
At Australia's statutory income tax rate of 30% (2016: 30%)	[illegible]	[illegible]
Non-allowable items	[illegible]	[illegible]
Other tax offsets	-	[illegible]
Over provision in prior year	[illegible]	[illegible]
Other	[illegible]	-
Income tax expense attributable to profit from ordinary activities	**5,320,158**	**3,778,648**

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss and other comprehensive income	
	2017	2016	2017	2016
	$	$	$	$
Doubtful debt	[illegible]	[illegible]	[illegible]	[illegible]
Other provisions and accrual	[illegible]	[illegible]	[illegible]	[illegible]
Employee leave provisions	[illegible]	[illegible]	[illegible]	[illegible]
Fixed assets	[illegible]	[illegible]	[illegible]	[illegible]
Deferred tax benefit			**(498,366)**	**(211,893)**
Net deferred tax assets	**2,981,224**	**1,926,291**		
Reflected in the consolidated statement of financial position as follows:				
Deferred tax assets	[illegible]	[illegible]		
Deferred tax liabilities	[illegible]	[illegible]		
Deferred tax assets, net	**2,981,224**	**1,926,291**		

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

5. Income tax (continued)

Reconciliation of deferred tax assets, net

	2017	2016
	$	$
As of 1 July	**1,926,291**	**1,574,798**
Tax income during the period recognised in profit or loss		
Deferred taxes acquired in business combinations		
As at 30 June	**2,981,224**	**1,926,291**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

6. Dividends

	2017		2016	
Dividends declared (all franked to 30%)	Cents per share	$	Cents per share	$
Quarter 1				
— Fully paid, Ordinary class (28,228,853 shares) (2016: 24,875,610 shares)	7.5	2,117,163	5.0	1,243,781
Quarter 2				
— Fully paid, Ordinary class (28,280,590 shares) (2016: 24,875,610 shares)	7.5	2,121,044	5.0	1,243,780
Quarter 3				
— Fully paid, Ordinary class (30,694,257 shares) (2016: 25,083,942 shares)	7.5	2,302,070	5.0	1,254,197
Quarter 4				
— Declared and not paid, Ordinary Class (36,132,565 shares) (Fully paid 2016: 25,431,277 shares)	7.5	2,709,943	15.0	3,814,691
— Declared and not paid, Ordinary class (2016: 27,407,942 shares)	-	-	5.0	1,370,397
— Declared and not paid, Ordinary class (27,407,942 shares) special dividend	-	-	7.5	
Total	**30.0**	**9,250,220**	**42.5**	**10,982,442**

Dividends payable brought forward		
Dividends declared during the year		
Dividends paid during the year	(9,966,270)	(8,658,480)
Dividends payable carried forward	**2,709,943**	**3,425,993**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

6. Dividends (continued)

	2017	2016
	$	$
Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2016: 30%)		
Franking credits that will arise from the payment of income taxes payable as at the end of the financial year		
Franking debits that will arise from the payment of dividends as at the end of the financial year	(6,900,946)	(1,468,282)
	15,885,544	**15,444,803**

7. Cash and cash equivalents

	2017	2016
	$	$
Cash at bank and on hand		
	15,751,960	**12,673,750**

	2017	2016
	$	$
Cash flow reconciliation		
Reconciliation of net profit after tax to net cash flows from operations:		
Profit for the year		
Adjustments for:		
Acquisition costs		
Depreciation and amortisation		
Increase in provision for doubtful debts		
(Profit)/loss (net) on sale of assets	(157,534)	(5,386)
Changes in assets and liabilities:		
(Increase)/decrease in receivables and other financial assets	(7,567,968)	
(Increase)/decrease in inventories and construction work in progress	(2,202,439)	
(Increase)/decrease in other assets	(491,825)	
(Increase)/decrease in deferred tax	(356,437)	(219,344)
Increase/(decrease) in payables		
Increase/(decrease) in income tax payable		(1,462,117)
Increase/(decrease) in provisions		(172,823)
Net cash flows from operating activities	**10,082,138**	**15,424,647**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

8. Trade and other receivables

	2017	2016
	$	$
Current		
Trade receivables	[illegible]	[illegible]
Provision for doubtful debts	[illegible]	[illegible]
	60,546,298	**45,398,303**
Retentions	[illegible]	[illegible]
Other debtors	[illegible]	[illegible]
	64,398,478	**47,996,711**

Movement in the provision for doubtful debts that are assessed individually are as follow:

	2017	2016
	$	$
At [illegible] July	[illegible]	[illegible]
Charge for the year	[illegible]	[illegible]
Utilised	[illegible]	[illegible]
At 30 June	**1,056,110**	**533,827**

9. Inventories and construction work in progress

	2017	2016
	$	$
Inventories		
Raw materials and stores	[illegible]	[illegible]
Work in progress	[illegible]	[illegible]
Finished goods	[illegible]	[illegible]
Provision for obsolescence	[illegible]	[illegible]
	11,809,037	**8,975,379**
Construction work in progress		
Unbilled revenue	[illegible]	[illegible]
	4,679,327	**4,916,577**
	16,488,364	**13,891,956**

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

10. Controlled entities

Name	Principal Activities	% Equity interest 2017	% Equity interest 2016
Allen & Newton Pty Ltd	Building	[illegible]	[illegible]
Allen & Newton Queensland Pty Limited	Building	[illegible]	[illegible]
ARA Building Services Pty Limited	Building	[illegible]	[illegible]
ARA Corporate Services Pty Limited	Corporate	[illegible]	[illegible]
ARA Electrical Engineering Services Pty Limited	Electrical	[illegible]	[illegible]
ARA Fire Protection Services Pty Limited	Fire	[illegible]	[illegible]
ARA Electrical High Voltage Services Pty Limited	Electrical	[illegible]	[illegible]
ARA Manufacture Pty Limited	Security	[illegible]	[illegible]
ARA Mechanical Services Pty Limited	Mechanical	[illegible]	[illegible]
ARA Security Services Pty Limited	Security	[illegible]	[illegible]
Asset Fire Security & Mechanical Services Pty Limited	Fire	[illegible]	[illegible]
CMC Cleaning Services Pty Ltd (d)	Cleaning	[illegible]	[illegible]
CMC ECRM Pty Ltd (d)	Cleaning	[illegible]	[illegible]
CMC Indigenous Services Pty Ltd (d)	Cleaning	[illegible]	[illegible]
CMC Maintenance Pty Ltd (d)	Cleaning	[illegible]	[illegible]
CMC Property Services (Aust) Pty Ltd (d)	Cleaning	[illegible]	[illegible]
CMC Property Services Pty Ltd the trustee for CMC Unit Trust (d)	Cleaning	[illegible]	[illegible]
CMC Rapid Response Pty Ltd (d)	Cleaning	[illegible]	[illegible]
Crimewatch Video Pty Limited	Security	[illegible]	[illegible]
Datatech Australia Pty Limited	Electrical	[illegible]	[illegible]
Dynamic Facilities Maintenance Group Pty Limited (a)	Building	[illegible]	[illegible]
Environmental Automation Pty Limited	Mechanical	[illegible]	[illegible]
Excell Control Pty Limited	Electrical	[illegible]	[illegible]
Hunter Power Pty Limited	Electrical	[illegible]	[illegible]
[illegible] Supplies Pty Limited	Security	[illegible]	[illegible]
International Security Control Solutions Pty Limited	Security	[illegible]	[illegible]
Monarch Group Pty Limited	Security	[illegible]	[illegible]
National Construction Solutions Pty Limited	Building	[illegible]	[illegible]
Parking Guidance Australia Pty Limited	Security	[illegible]	[illegible]
TALV Pty Limited	Building	[illegible]	[illegible]
Transelect Pty Limited	Electrical	[illegible]	[illegible]
We[illegible] Pty Limited (b)	Mechanical	[illegible]	[illegible]
ARA Group [illegible] Limited (c)		[illegible]	[illegible]

(a) Dynamic Facilities Maintenance Group Pty Limited was acquired by ARA Building Services Pty Limited effective [illegible] October [illegible]

(b) We[illegible] Pty Limited was acquired by Environmental Automation Pty Limited effective [illegible] October [illegible]

(c) ARA Group [illegible] Limited was incorporated in New Zealand on [illegible] July [illegible]

(d) CMC Cleaning Services Pty Ltd, CMC ECRM Pty Ltd, CMC Indigenous Services Pty Ltd, CMC Maintenance Pty Ltd, CMC Property Services (Aust) Pty Ltd, CMC Property Services Pty Ltd the trustee for CMC Unit Trust and CMC Rapid Response Pty Ltd were acquired effective [illegible] May 2017, by ARA Group Limited.

All wholly owned controlled entities incorporated in Australia are subject to a Deed of Cross Guarantee.

All wholly owned controlled entities are incorporated in Australia with the exception of ARA Group [illegible] Limited, which is incorporated in New Zealand.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

11. Property, plant and equipment

	Leasehold improvements	Plant and equipment	Office furniture and equipment	Computer equipment and software	Motor Vehicles	Total
	$	$	$	$	$	$
Cost						
At July						
Additions						
Acquisition of a subsidiary (Note						
Disposals						
Transfer (to)/from other group company						
At 30 June 2017	**7,283,809**	**14,348,956**	**2,092,567**	**5,569,549**	**2,693,065**	**31,987,946**
Accumulated depreciation						
At July						
Depreciation charge for the year						
Disposals						
At 30 June 2017	**3,200,316**	**9,855,336**	**1,420,243**	**4,487,264**	**1,146,077**	**20,109,236**
Net book value						
At June						
At 30 June 2017	**4,083,493**	**4,493,620**	**672,324**	**1,082,285**	**1,546,988**	**11,878,710**

Finance leases

The carrying value of motor vehicles held under finance leases and hire purchase contracts at June was $463,243 $nil). The carrying value of plant and equipment held under finance leases and hire purchase contracts at June was $262,984 $nil). Additions during the year were the result of acquisitions of two businesses, CMC and Dynamic Facilities Maintenance Group Pty Limited. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

12. Goodwill and intangible assets

	Goodwill	Development costs	Intellectual property	Total
	$	$	$	$
Cost				
At July				
Acquisition of subsidiary				
At 30 June 2017	**107,840,067**	**326,750**	**566,000**	**108,732,817**
Accumulated amortisation				
At July				
Amortisation				
At 30 June 2017	**-**	**326,750**	**199,819**	**526,569**
Net book value				
At June				
At 30 June 2017	**107,840,067**	**-**	**366,181**	**108,206,248**

13. Trade and other payables

	2017	2016
	$	$
Current		
Trade payables	**42,640,004**	**40,188,404**
Trade creditors accruals		
Other creditors and accruals		
Deferred purchase consideration for acquisitions		
Cash on deposit owing to third parties		
Dividends payable		
Contract revenue received in advance		
	26,635,505	**14,544,672**
Non-current		
Other creditors	**2,250,000**	**3,267,393**

In non current creditors there is an amount of $2,250,000 which represents the deferred purchase consideration for the acquisition of CMC. This was a share purchase and acquired in May 2017.The amount is not contingent upon reaching earnings thresholds.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

14. Interest-bearing loans and borrowings

	Interest rate	Maturity	2017	2016
	%		$	$
Current				
Bank bills and loans secured [illegible]a)	[illegible]	[illegible]	[illegible]	[illegible]
Finance leases and hire purchase contracts [illegible]a)	[illegible]	[illegible]	[illegible]	[illegible]
			1,881,157	**-**
Non-current				
Bank bills and loans secured (Note [illegible]) [illegible]a)	[illegible]	[illegible]	[illegible]	[illegible]
Finance leases and hire purchase contracts [illegible]a)	[illegible]	[illegible]	[illegible]	[illegible]
			36,373,607	**21,350,000**
13.5% Subordinated debentures [illegible]c)	[illegible]	December [illegible]	[illegible]	[illegible]
7% Subordinated convertible debentures [illegible]c)	[illegible]	June [illegible]	[illegible]	[illegible]
Subordinated debentures [illegible]c)	[illegible]	June [illegible]	[illegible]	[illegible]
			38,604,764	**25,965,000**

[illegible]a) Total current and non-current secured liabilities

Bank bills and loans	[illegible]	[illegible]
Finance leases and hire purchase contracts	[illegible]	[illegible]
	38,254,764	**21,350,000**

The bank bills and loans are secured [illegible] a fixed charged over the Group's assets. Finance leases and hire purchase contracts are secured [illegible] the lessor's title to the leased assets.

[illegible]) The carrying amounts of assets pledged as security, the current market value of which exceeds the value of the mortgage

First mortgage over all of the assets of the parent entity and all controlled entities [illegible]total assets pledged as security	**223,504,994**	**165,485,342**

[illegible]c) Unsecured liabilities

13.5% Subordinated debentures	[illegible]	[illegible]
7% Subordinated convertible debentures	[illegible]	[illegible]
8% Subordinated debentures	[illegible]	[illegible]
	350,000	**4,615,000**

The Company issued 13.5% subordinated debentures on and around [illegible] December [illegible] and [illegible] March [illegible] Each subordinated debenture bears a 13.5% interest rate on its allocated subscription amount from (and including) its issue date to (but excluding) its maturity date. The maturity date for each debenture is three years from the date of issuance of the note. These debentures can be extended upon agreement of the Company and the debenture holder. The debentures can be converted to ordinary shares at $1.50 per share[illegible]During [illegible]all of the remaining $1,100,000 debentures were converted into [illegible] ordinary shares at $1.50 per share.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

14. Interest-bearing loans and borrowings (continued)

The Company issued 7% convertible subordinated debentures during [illegible] and [illegible]The debentures are convertible into ordinary shares at $2.00 per share. The minimum subscription for convertible debentures is $50,000 and thereafter in multiples of $10,000. The convertible debentures do not confer on any debenture holder any entitlement to:

a) vote at any general meeting of the shareholders of the issuer;

b) receive dividends or;

c) participate in any issue of securities or share related securities other than on conversion of the convertible debentures into ordinary shares in accordance with their debenture.

Each convertible note bears a 7% interest rate on its issue price of $2.00 from (and including) its issue date until the earlier of the conversion date, the redemption date and the maturity date [illegible] years from the issue date [illegible] June 2015). During the year all of the remaining $50,000 debentures were converted into 25,000 ordinary shares at $2.00 per share (as detailed in the contributed equity & reserve note).

The Company issued 8% subordinated debentures on and around [illegible] June [illegible]Each subordinated debenture bears an 8% interest rate on its allocated subscription amount from (and including) its issue date to (but excluding) its maturity date. The maturity date for each debenture is five years from the date of issuance of the note. The debentures can be extended upon agreement of the Company and the debenture holder. During the year a further $2,814,000, 8% debentures were issued to noteholders. In March 2017, the Board approved an exchange of notes to equity at a $3 per share conversion. A total of $5,929,000 notes were converted to 1,976,333 shares, during the year. At [illegible] June [illegible], 350,000 subordinated notes were outstanding.

15. Employee benefits

	2017	2016
	$	$
Current		
Annual leave	8,463,129	7,094,358
Long service leave	3,102,368	2,545,391
	11,565,497	**9,639,749**
Non-current		
Long service leave	1,727,480	1,457,017
	1,727,480	**1,457,017**
Aggregate employee entitlement liability	**13,292,977**	**11,096,766**

16. Contributed equity and reserves

	2017	2016
	$	$
Fully paid shares		
Fully paid ordinary shares	74,141,593	49,107,727
	74,141,593	**49,107,727**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

16. Contributed equity and reserves (continued)

	2017		2016	
Fully paid ordinary shares	**No.**	**$**	**No.**	**$**
At beginning of financial year	**27,407,942**	**49,107,727**	**22,040,610**	**39,527,722**
Converted from debentures	[illegible]	[illegible]	[illegible]	[illegible]
Issued during financial year				
acquisitions	[illegible]	[illegible]	[illegible]	[illegible]
capital raising	[illegible]	[illegible]	[illegible]	[illegible]
At reporting date	**36,132,565**	**74,141,593**	**27,407,942**	**49,107,727**

At the reporting date, issued capital consists of [illegible] ordinary shares. All ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote per share held when a poll is called, otherwise each shareholder has one vote on a show of hands.

In March [illegible] the Board voted to allow the holders of the 8% subordinated debentures to exchange their notes into ordinary shares at a price of $3.00 per share. The company issued [illegible] ordinary shares at $3.00, increasing equity by $5,929,000. At the reporting date, $350,000 of the 8% debentures had not exchanged.

During the year, $50,000 of the remaining 7% convertible subordinated debentures were converted into [illegible] ordinary shares at $2.00 per share.

During the year, $1,100,000 of the remaining 13.5% subordinated debentures were converted into [illegible] ordinary shares at $1.50 per share.

The Company issued [illegible] ordinary shares during the year at $3.00 per share to new and existing shareholders increasing equity by $17,954,866. This includes, [illegible] shares issued as purchase price consideration to the vendor of the CMC acquired effective [illegible] May 2017.

Other reserves

a) Composition

	2017	2016
	$	**$**
Other reserve	[illegible]	[illegible]
Hedge reserve	[illegible]	[illegible]
	2,703,130	**2,839,864**

b) Movement

	2017	2016
	$	**$**
Other reserve		
Balance at the start of the financial year	[illegible]	[illegible]
Convertible debentures converted to equity	[illegible]	[illegible]
	2,839,864	**2,839,864**

	2017	2016
	$	**$**
Hedge reserve		
Balance at the start of the financial year	[illegible]	[illegible]
Net unrealised gain on cash flow hedges	[illegible]	[illegible]
Deferred tax on net realised loss on cash flow hedges	[illegible]	[illegible]
	(136,734)	**-**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

16. Contributed equity and reserves (continued)

c) Nature and purpose of reserve

Other reserve

The other reserves represents goodwill arising from subsequent acquisitions of previous non-controlling interests. The acquisitions are treated as transactions between owners and the resulting goodwill is recognised directly in other reserves.

Hedge reserve

This reserve records movements for the interest rate swap contracts qualifying for hedge accounting.

17. Related party disclosure

Transaction with key management personnel

Rental property paid to Directors
The Group rented certain properties that are controlled by members of the Group's Key Management Personnel. Total rental paid during the year amounted to $820,422 [illegible]2016[illegible]$788,467).

Compensation of key management personnel of the Group
Total compensation paid to key management personnel during the year amounted to $4,353,294 [illegible]2016[illegible] $3,490,119).

Subordinated noteholders
Total interest paid to noteholders of subordinated debentures amounted to $317,903 [illegible]2016[illegible]$625,624). Interest was paid to key management personnel who own subordinated debentures during the year.

Directors fees
Total directors fees paid during the year amounted to $118,000 [illegible]2016[illegible]$103,745).

18. Commitments and contingencies

18.1 Operating lease commitments

Operating lease commitments comprise motor vehicle leases and property leases.

The property leases are non-cancellable with terms of up to 10 years, and rent payable monthly in advance. Contingent rental provisions within the lease agreements require that the minimum lease payments shall be increased by either CPI or market. An option exists to renew certain leases at the end of their current term.

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2017	2016
	$	**$**
Within one year	7,905,035	8,123,842
After one year but not more than five years	16,495,862	13,404,959
More than five years	2,083,929	3,052,091
	26,484,826	**24,580,892**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

18. Commitments and contingencies (continued)

18.2 Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of motor vehicles and plant and machinery. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are, as follows:

	2017 Minimum payments $
Within one year	299,555
After one year but not more than five years	363,113
Total minimum lease payments	662,668
Less amounts representing finance charges	(32,904)
Present value of minimum lease payments	**629,764**

18.3 Contingent liabilities

The parent company and all its wholly owned controlled entities, are subject to a Cross Deed of Guarantee in respect of finance facilities provided to the ultimate parent entity and other entities controlled thereby. All assets of the Company are pledged as security in respect of this facility with a registered charge being in place. On □ May 2017, the Group refinanced its bank and borrowing facilities with Westpac Banking Corporation. The total facility available to the Group from Westpac Banking Corporation is $65,125,000 □2016: available from ANZ Banking Group $62,119,000). □□these facilities, an amount of $15,000,000 is available for indemnity guarantees and as at 30 June 2017 the economic entity had $13,017,051 of indemnity guarantees outstanding. Included in the $13,017,051, is an indemnity guarantee to ANZ Banking Group for $10,756,768, for bank guarantees which have not yet been transferred to Westpac Banking Corporation. At 30 June 2016, the economic entity had $12,270,341 of indemnity guarantees outstanding with ANZ Banking Group.

19. Events after the reporting period

There have been no significant events occurring after the reporting period which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

20. Closed group class order

20.1 Entities subject to class order relief

Pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785,* the wholly owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports.

It is a condition of the Class Order that the parent company and each of its subsidiaries enter into a deed of cross guarantee (Deed). Under the Deed the parent company guarantees the payment of all debts of each of the named subsidiaries in full, in the event of a winding up. The subsidiaries in turn guarantee the payment of all debts of the parent company in full in the event that it is wound up.

The subsidiaries that are party to the Deed are:

Allen & Newton Pty Ltd
Allen & Newton Queensland Pty Limited
ARA Building Services Pty Limited
ARA Corporate Services Pty Limited
ARA Electrical Engineering Services Pty Limited
ARA Fire Protection Services Pty Limited
ARA Electrical High Voltage Services Pty Limited
ARA Manufacture Pty Limited
ARA Mechanical Services Pty Limited
ARA Security Services Pty Limited
Asset Fire Security & Mechanical Services Pty Limited
CMC Cleaning Services Pty Ltd
CMC ECRM Pty Ltd
CMC Maintenance Pty Ltd
CMC Property Services (Aust) Pty Ltd
CMC Property Services Pty Ltd the trustee for CMC Unit Trust
CMC Rapid Response Pty Ltd
Crimewatch Video Pty Limited
Datatech Australia Pty Limited
Dynamic Facilities Maintenance Group Pty Limited
Environmental Automation Pty Limited
Excell Control Pty Limited
Hunter Power Pty Limited
□□ Supplies Pty Limited
International Security Control Solutions Pty Limited
Monarch Group Pty Limited
National Construction Solutions Pty Limited
Parking Guidance Australia Pty Limited
TALV Pty Limited
Transelect Pty Limited
Web □□ Pty Limited

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

20. Closed group class order (continued)

20.2 Consolidated statement of profit or loss and other comprehensive income

	Closed group 2017	2016
	$	$
Profit before income tax expense		
Income tax expense		
Net profit for the period	**11,991,851**	**8,386,883**
Retained earnings at the beginning of the period		
Dividends provided for or paid		
Retained earnings at the end of the period	**23,111,892**	**20,370,261**

20.3 Consolidated statement of financial position

The consolidated statement of financial position of the Closed Group is as follows:

	Closed group 2017	2016
	$	$
Current assets		
Cash and cash equivalents		
Trade and other receivables		
Inventories and construction work in progress		
Other assets		
Total current assets	**93,948,209**	**74,907,725**
Non-current assets		
Other financial assets		
Property, plant and equipment		
Deferred tax assets		
Goodwill and intangible assets		
Total non-current assets	**126,304,926**	**90,577,617**
Total assets	**220,253,135**	**165,485,342**
Current liabilities		
Trade payables		
Other payables		
Income tax payable		
Employee benefits		
Total current liabilities	**82,428,921**	**65,680,654**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

20. Closed group class order (continued)

20.3 Consolidated statement of financial position (continued)

	Closed group 2017	2016
	$	$
Non-current liabilities		
Trade and other payables		
Other financial liabilities		
Deferred tax liabilities		
Employee benefits		
Total non-current liabilities	**43,273,859**	**33,166,564**
Total liabilities	**125,702,780**	**98,847,218**
Net assets	**94,550,355**	**66,638,124**
Equity		
Share capital		
Retained earnings		
Other reserves		
Total equity	**94,550,355**	**66,638,124**

21. Information relating to parent ARA Group Limited

	2017	2016
	$	$
Current assets		
Non-current assets		
Total assets	**190,732,946**	**143,703,299**
Current liabilities		
Non-current liabilities		
Total liabilities	**132,667,230**	**100,004,453**
Net assets	**58,065,716**	**43,698,846**
Contributed equity		
Accumulated losses		
	58,065,716	**43,698,846**
Loss for the year		

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2017

22. Auditors' remuneration

The auditor of ARA Group Limited and Controlled Entities is Ernst & Young (Australia).

	2017 $	2016 $
Amounts received or due and receivable by Ernst & Young audit firm for:		
□□ audit	□□□□□□□	□□□□□□□
□□ other services	□□□□□□□	□□□□□□□
	□□□□□□□	□□□□□□□
Amounts received or due and receivable by non Ernst & Young audit firm for:		
Services provided □□other accounting firms	□□□□□□	□□□□□□□
	770,581	**599,912**

Directors' declaration

In accordance with a resolution of the directors of ARA Group Limited and Controlled Entities□□state that:

In the opinion of the directors:

□a□ the consolidated financial statements and notes of ARA Group Limited and Controlled Entities for the financial year ended □□June □□□□ are in accordance with the *Corporations Act 2001*□including:

□i□ giving a true and fair view of the consolidated entity's financial position as at □□June □□□□ and of its performance for the year ended on that date; and

□ii□ complying with Accounting Standards □Reduced Disclosure Requirements (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

□□□ there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

□c□ as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note □□will be able to meet any obligations or liabilities to which they are or may become subject, □□virtue of the Deed of Cross Guarantee.

On behalf of the board

Edward Federman
Executive Director
□August □□□□

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Independent Auditor's Report to the Members of ARA Group Limited

Opinion

We have audited the financial report of ARA Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Chris Lawton
Partner
Sydney
4 August 2017

ARA Directory

ARA Group
www.aragroup.com.au

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P: Locked Bag 5501, Camperdown NSW 2050
T: 1300 233 305

Security
www.arasec.com.au

ACT
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Tel: 1300 303 325

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Tel: 1300 303 325

VIC
93 Cook Street, Port Melbourne, VIC 3207
Tel: 1300 303 325

WA
10 Halley Road, Balcatta WA 6021
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NEW ZEALAND
7/9 General Gates Ave, Kerikeri 0230

Level 3, 93 Grafton Road, Auckland 1010

1/28 Honan Place, Avondale 1026

Property Services
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CMC

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Mechanical
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Electrical
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NSW
14c Williamson Road, Ingleburn NSW 2565
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Engineering Services

NSW
20 Investigator Drive, Unanderra NSW 2526
Tel: 02 4260 5200

8 Magpie Street, Singleton NSW 2330
Tel: 02 6572 4400

Unit 1/11 Wilkins Crescent, Mudgee NSW 2850
Tel: 02 6572 4400

14C Williamson Road, Ingleburn NSW 2565
Tel: 02 9829 6099

High Voltage Services & Excell Control

NSW
15 Abundance Road, Medowie NSW 2318
Tel: 02 4919 6900

23 Commerce Street, Wauchope NSW 2446
Tel: 02 6586 4302

18 Investigator Drive, Unanderra NSW 2526
Tel: 02 4272 2811

34 Norfolk Avenue, Nowra NSW 2541
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37 Mary Street, Kingston QLD 4114
Tel: 07 3208 9995

45 Chetwynd Street, Loganholme QLD 4129
Tel: 07 3441 2400

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19 Taminga Street, Regency Park SA 5010
Tel: 08 8243 7030

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93 Cook Street, Port Melbourne VIC 3207
Tel: 03 9200 6300

WA
10 Halley Road, Balcatta WA 6021
Tel: 08 9406 3600

Products

ARA Premier Locksmiths

SA

59 Goodwood Road, Wayville SA 5034
Tel: 1300 863 435

BSA

NSW

15A Walker St, South Windsor NSW 2756
Tel: 02 4577 5755

Cbros Physical Security

VIC
28 Reid Street, Ardeer VIC 3022
Tel: 03 9390 0800

ID Supplies

NSW
Unit 22, 287 Victoria Road, Rydalmere NSW
2116
Tel: 1800 330 099

ISCS & Woodpend

NSW
Austlink Corporate Park
Unit 3, 4 Narabang Way, Belrose NSW 2085
Tel: 02 9450 6500

QLD
Unit 8, 4 Henry Street, Loganholme QLD 4129
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61 Goodwood Road, Wayville SA 5034
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Unit 2, 34 Wirraway Drive, Port Melbourne
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Tel: 03 9200 6700

Sealeck, Monarch & Renlita

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Unit 1, 5 Endeavour Road, Caringbah NSW 2229
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